

Grand Haven/Spring Lake Sewer Authority

Financial Statements and Additional Information Years Ended June 30, 2004 and 2003

Auditing Procedures Report

70-7500

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|---|-------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Grand Haven-Spring Lake Sewer Authority | County Ottawa |
| Audit Date 6/30/04 | Opinion Date 10/6/04 | Date Accountant Report Submitted to State: 12/15/04 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|-----------------------------|--------------------------|--------------------------|
| Certified Public Accountant (Firm Name) BDO Seidman, LLP | | | |
| Street Address 99 Monroe Avenue NW, Suite 800 | City Grand Rapids | State MI | ZIP 49503-2654 |
| Accountant Signature <i>BDO Seidman, LLP</i> | | Date <i>1/18/2005</i> | |

Grand Haven/Spring Lake Sewer Authority

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November 1, 2004

Honorable Mayor and City Council
Grand Haven/Spring Lake Sewer Authority Board

It is with great pleasure that we present the Grand Haven/Spring Lake Sewer Authority Annual Financial Report for the fiscal year ended June 30, 2004. This is the second report using the new reporting model as prescribed by the Governmental Accounting Standards Board (GASB) in their Statement 34.

As the City of Grand Haven, by contract, is the fiscal agent for the Sewer Authority, this report has been prepared by the financial services staff of the City of Grand Haven with the assistance of the Wastewater Superintendent. City Administration holds full responsibility for the completeness and accuracy for all statements, schedules, notes and analyses herein. To provide a reasonable basis for making these representations, City Administration has maintained a system of internal controls to protect Sewer Authority assets from theft, loss or misuse and to compile reliable information for the presentation of our financial statement in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefit received; therefore, the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Reporting Entity

The Sewer Authority was established in 1970 by agreement between the City of Grand Haven and the Village of Spring Lake to provide regional wastewater treatment. The City of Ferrysburg and the Township of Spring Lake joined the Authority in 1982 and the Charter Township of Grand Haven joined in 1986. In 1972, the current wastewater treatment plant was built and over the years has been upgraded and modified to its current capacity. The Authority serves a population of over 20,000 and presently operates at an average capacity of 50%.

The City of Grand Haven also provides contractual management and financial administration to the following organizations:

Northwest Ottawa Water Treatment Plant, a joint venture of North Ottawa local units of government, and
Ottawa County Central Dispatch Authority, a component unit of Ottawa County

The financial reports of these entities, as well as the City of Grand Haven, are reported elsewhere and are not included here.

Budgeting and Financial Planning

As part of the City's financial planning process, the Sewer Authority Board adopts an annual budget including a five-year Capital Improvement Plan. These two documents address the Authority's strategy to improve the operations and maintain the wastewater plant. The budget document is included within the City of Grand Haven annual budget to provide comprehensive public presentation and provides the financial framework for planning and control, as well as defining the Authority's role for the future. The Capital Improvement Plan provides the Board and staff with a strategy for future major capital items and related financial resources that will be required over the next five years to implement the Board's vision.

The budget process normally begins in late fall with a goal-setting session. The Wastewater Superintendent, the Grand Haven City Finance Director and the City Manager, working as a Budget Committee, draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The Sewer Authority Board adopts the Authority's budget.

After the close of the fiscal year, the Financial Statements are prepared to report on the financial condition of the Authority and the fiscal results of its operations. Included in the report are budget to actual comparisons of revenues and expenditures. Included in the Financial Statements is disclosure of both the original budget and the final amended budget.

Economic Condition and Outlook

The current national economic conditions present employment challenges for displaced employees and the local economy as a whole. However, economic forecasters indicate an improvement in conditions is anticipated for 2004 and later.

The Sewer Authority noted a continuing decline in services provided to the local municipalities, especially evident in the continuing reduction of wastewater infiltration into local unit sewer collection lines. This is compounded by the lower water table presently being experienced and by reduced Lake Michigan water levels. However, the Sewer Authority notes a continuing population increase in the townships and potential economic and industrial growth, which leaves the current plant well within its capacity for future service expansion without a near-term major capital initiative.

Fiscal Year 2003-04 Initiatives

Treated 1,259 million gallons of wastewater received from the Sewer Authority service area.

Fabricated and installed an odor control feed system for employee safety and infrastructure protection at the Spring Lake pump station.

Sandblasted and recoated all final clarifiers.

Installed new counters, cabinets and sinks in the laboratory.

New Reporting Model Format

The format of the Financial Statements using GASB Statement 34 guidelines is significantly different from prior years. The objective of the new model is to increase the accountability of the

Authority by providing more useful information to a wider range of users. A few of the more significant changes include:

- Certain financial information has been moved from the transmittal letter to the "Management Discussion and Analysis" (MD&A). This provides a more in-depth review and discussion of the Authority's financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many of the key financial topics are covered by the MD&A, which can be found immediately after the auditors' opinion letter.
- Continuing the appropriate accounting basis for enterprise funds, the Sewer Authority statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the Authority as an economic entity as is done in the private sector.
- An initiative during fiscal year 2002-03 to verify all Sewer Authority assets was not required under GASB 34, but serves as a foundation for future reports.
- The Sewer Authority is only one operating fund, a proprietary fund.

Once readers understand how the new model works, the new format will most probably be preferred because of the additional information available. The Sewer Authority report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format.

Independent Audit

State statute and the various local unit charters require an annual financial audit by an independent certified public accountant. In May 2003, City Council selected the accounting firm of BDO Seidman, LLP, Certified Public Accountants, who will provide auditing services for this and the next four annual reports. In the summer of 2004, BDO Seidman, LLP sold its Muskegon office to former BDO Seidman, LLP partners. Pridnia LaPres, PLLC provides the same auditing staff once provided by BDO Seidman, LLP, plus, as a BDO Alliance Partner and under the supervision of BDO Seidman, LLP, their audit will be approved and published under the BDO Seidman, LLP letterhead.

Acknowledgments

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments, in particular, spent many hours working on this project. Susan LaPage, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work.

Sincerely,

Patrick McGinnis
City Manager

James P. Bonamy, CPFA
Finance Director



BDO Seidman, LLP
Accountants and Consultants

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Independent Auditors' Report

Board of Trustees
Grand Haven/Spring Lake Sewer Authority
Grand Haven, Michigan

We have audited the financial statements of the Grand Haven/Spring Lake Sewer Authority as of and for the years ended June 30, 2004 and 2003 as listed in the table of contents. These financial statements are the responsibility of the Grand Haven/Spring Lake Sewer Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Haven/Spring Lake Sewer Authority as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

BDO Seidman, LLP

October 6, 2004
Grand Rapids, Michigan

Grand Haven/Spring Lake Sewer Authority
Management Discussion and Analysis
June 30, 2004

1) Financial Highlights

- a) The Grand Haven/Spring Lake Sewer Authority (the Authority) operates a wastewater treatment facility and certain collection lines for the Northwest Ottawa communities of Grand Haven, Spring Lake, Ferrysburg, Grand Haven Township and Spring Lake Township and ended the fiscal year in better financial position than it started. The Authority also ended the year within budget. Overall debt was lower due to annual bond payments. Net assets were revalued for FY2003 from prior year amounts to meet actual holdings and GASB 34 requirements. Additional revaluation is not expected except for current year activities.
- b) Net assets increased by \$79,830.
- c) Total operating expenses totaled \$1,556,187.

2) Overview of Financial Statements

a) Overall financial picture

The financial statements provide one view of the Authority's financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

i) Statement of Net Assets

The *Statement of Net Assets* provides information on assets, liabilities and the difference between assets and liabilities, which is called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statement of Net Assets* is similar to a balance sheet in private sector accounting.

ii) Statement of Activities

The *Statement of Activities* suggests the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs. This means the statement includes depreciation on the assets. The statement does not report any capital projects. Capital projects are reported on the *Statement of Net Assets*.

b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of the Authority.

3) Financial Analysis

a) Net Assets

The *Statement of Net Assets* provides an overview of the Authority's assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of the Authority's fiscal health. A comparative analysis has been presented.

On the next page is a summarized version of the *Statement of Net Assets*.

**Grand Haven/Spring Lake Sewer Authority
Management Discussion and Analysis
June 30, 2004**

**Grand Haven/Spring Lake Sewer Authority
Net Assets**

| <i>June 30,</i> | 2004 | 2003 |
|---|---------------------|---------------------|
| Assets | | |
| Current and other assets | \$ 459,029 | \$ 642,937 |
| Capital assets | 7,485,432 | 7,549,713 |
| Total Assets | 7,944,461 | 8,192,650 |
| Liabilities | | |
| Long-term debt | 358,570 | 667,856 |
| Other liabilities | 529,153 | 547,886 |
| Total Liabilities | 887,723 | 1,215,742 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 4,752,756 | 4,685,427 |
| Restricted | 2,044,106 | 1,876,430 |
| Unrestricted | 259,876 | 415,051 |
| Total Net Assets | \$ 7,056,738 | \$ 6,976,908 |

The total net assets of the Authority are \$7,056,738; however, \$4,752,756 represents investment in capital assets including infrastructure. Of the more liquid assets, \$2,044,106 is restricted. The Authority has \$259,876 in unrestricted net assets. Total net assets increased by \$79,830 in FY2004.

Significant changes in net assets are shown in the table on the next page.

Grand Haven/Spring Lake Sewer Authority
Management Discussion and Analysis
June 30, 2004

b) Changes in Net Assets

| Grand Haven/Spring Lake Sewer Authority | | |
|--|---------------------|---------------------|
| Changes in Net Assets | | |
| <i>Year ended June 30,</i> | 2004 | 2003 |
| Revenue | | |
| Program revenues: | | |
| Charges for services | \$ 1,317,431 | \$ 1,217,056 |
| Other | 6,799 | 2,032 |
| Total Operating Revenues | 1,324,230 | 1,219,088 |
| Expenses | | |
| Plant operations and charges | 916,788 | 926,583 |
| Administrative | 309,819 | 301,247 |
| Depreciation | 329,580 | (22,163) |
| Total Operating Expenses | 1,556,187 | 1,205,667 |
| Non-Operating Revenue (Expense) | | |
| Debt service charge | 320,977 | 257,695 |
| Contributions from customer | 24,000 | 24,000 |
| Interest income | 17,466 | 28,931 |
| Interest expense | (29,942) | (49,356) |
| Other non-operating expenses | (20,714) | (20,714) |
| Total Non-Operating Revenue | 311,787 | 240,556 |
| Change In Net Assets | 79,830 | 253,977 |
| Net Assets, beginning of year | 6,976,908 | 6,722,931 |
| Net Assets, end of year | \$ 7,056,738 | \$ 6,976,908 |

4) Financial Analysis of the Authority

The Authority had revenues of \$1,686,673, an increase of \$156,959 from the prior year. The increase consists of a \$105,142 in operating and other revenue, a \$63,282 in debt service charges to units and a \$11,465 reduction in interest earnings. Overall fund expenditures were within budget.

5) Capital Assets and Debt Administration

a) Capital Assets

i) Summary of capital assets

The Authority has \$5,441,326 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life of greater than one year. Capital assets includes: land, land improvements, buildings, equipment and utility systems such as sewer lines. The Authority uses straight line depreciation for all depreciable assets. In FY2004, net capital assets decreased by \$231,957 in business-type activities.

Grand Haven/Spring Lake Sewer Authority
Management Discussion and Analysis
June 30, 2004

- b) More detailed information about changes in capital assets can be found in Note 3 of the notes to the financial statements.

6) Debt

The Authority had \$688,570 of debt outstanding as of June 30, 2004.

In Note 5 of the notes to the financial statements more detailed information on debt and other obligations can be found.

7) Economic Forecast

The Authority has one main source of revenue, utility charges. Utility sales, while affected by the economy, experience larger swings of revenue from changes in weather conditions. During wet spells, wastewater treatment sales increase due to infiltration into the collection system. For the FY2004-05 budget, Administration anticipates that sales will be roughly equal to FY2003-04 volumes.

8) Contacting the Authority's Financial Management Staff

The City of Grand Haven, by contract, is the fiscal administrator of the Authority. This financial report is designed to provide individuals interested in the Authority's financial position, such as citizens, taxpayers, customers, and investors and creditors, with a general overview of the Authority's finances and to show the Authority's accountability for the revenue it receives. If you have questions about this report or need additional financial information, contact us at 519 Washington Avenue, Grand Haven, Michigan 49417, or call or e-mail us as noted below:

Patrick McGinnis
City Manager
616 847-4888
pmcginnis@grandhaven.org

James P. Bonamy, CMFA
Finance Director
616 847-4893
jbony@grandhaven.org

Financial Statements



| <i>June 30,</i> | 2004 | 2003 |
|------------------------------------|--------------------|--------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Note 2) | \$ 235,695 | \$ 377,573 |
| Due from other governmental units | 217,023 | 259,616 |
| Inventories | 6,311 | 5,748 |
| Total Current Assets | 459,029 | 642,937 |
| Long-Term Assets | | |
| Capital assets (Note 3) | 5,441,326 | 5,673,283 |
| Restricted assets (Note 4) | 2,044,106 | 1,876,430 |
| Total Long-Term Assets | 7,485,432 | 7,549,713 |
| Total Assets | \$7,944,461 | \$8,192,650 |

Grand Haven/Spring Lake Sewer Authority

Statements of Net Assets

| <i>June 30,</i> | 2004 | 2003 |
|--|--------------------|--------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt (Note 5) | \$ 330,000 | \$ 320,000 |
| Due to other governmental units: | | |
| Billing adjustment | 3,947 | 21,017 |
| Other | 45 | 13,119 |
| Accounts payable | 72,259 | 63,687 |
| Accrued and other liabilities | 122,902 | 130,063 |
| Total Current Liabilities | 529,153 | 547,886 |
| Long-Term Debt – less current maturities (Note 5) | 358,570 | 667,856 |
| Total Liabilities | 887,723 | 1,215,742 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 4,752,756 | 4,685,427 |
| Net assets: | | |
| Reserved for restricted assets (Note 4) | 2,044,106 | 1,876,430 |
| Unreserved | 259,876 | 415,051 |
| Total Net Assets | 7,056,738 | 6,976,908 |
| Total Liabilities and Net Assets | \$7,944,461 | \$8,192,650 |

See accompanying notes to financial statements.

Grand Haven/Spring Lake Sewer Authority

Statements of Revenue, Expenses and Changes in Net Assets

| <i>Year ended June 30,</i> | 2004 | 2003 |
|--|--------------------|--------------------|
| Operating Revenue | | |
| Sewage disposal charges | \$1,317,431 | \$1,217,056 |
| Other | 6,799 | 2,032 |
| Total Operating Revenue | 1,324,230 | 1,219,088 |
| Operating Expenses | | |
| Plant operations and charges | 916,788 | 926,583 |
| Administrative | 309,819 | 301,247 |
| Depreciation | 329,580 | (22,163) |
| Total Operating Expenses | 1,556,187 | 1,205,667 |
| Operating Income (Loss) | (231,957) | 13,421 |
| Non-Operating Revenue (Expense) | | |
| Debt service charge | 320,977 | 257,695 |
| Contributions from customer | 24,000 | 24,000 |
| Interest income | 17,466 | 28,931 |
| Interest expense | (29,942) | (49,356) |
| Other non-operating expenses | (20,714) | (20,714) |
| Total Non-Operating Revenue | 311,787 | 240,556 |
| Change in Net Assets | 79,830 | 253,977 |
| Net Assets, beginning of year | 6,976,908 | 6,722,931 |
| Net Assets, end of year | \$7,056,738 | \$6,976,908 |

See accompanying notes to financial statements.

Grand Haven/Spring Lake Sewer Authority

Statements of Cash Flows

| <i>Year ended June 30,</i> | 2004 | 2003 |
|---|--------------------|--------------------|
| Cash Flows From Operating Activities | | |
| Operating income (loss) | \$ (231,957) | \$ 13,421 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 329,580 | (22,163) |
| Changes in assets and liabilities: | | |
| Due from other governmental units | 28,906 | 11,401 |
| Inventory | (563) | (2,502) |
| Due to other governmental units | (30,144) | 1,442 |
| Accounts payable | 8,572 | (24,815) |
| Accrued and other liabilities | (7,161) | 5,104 |
| Net Cash Provided by (Used for) Operating Activities | 97,233 | (18,112) |
| Cash Flows From Non-Capital and Related Financing Activities | | |
| Contributions from constituent municipalities | 24,000 | 24,000 |
| Purchase of capital assets | (97,623) | (97,341) |
| Net Cash Used in Non-Capital and Related Financing Activities | (73,623) | (73,341) |
| Cash Flows From Capital and Related Financing Activities | | |
| Principal and interest paid on long-term debt | (349,942) | (354,356) |
| Proceeds from debt service charge | 320,977 | 257,695 |
| Net Cash Used in Capital and Related Financing Activities | (28,965) | (96,661) |
| Cash Flows From Investment Activities | | |
| Interest received on investments | 17,466 | 28,931 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 12,111 | (159,183) |
| Cash and Cash Equivalents, beginning of year | 2,198,823 | 2,358,006 |
| Cash and Cash Equivalents, end of year | \$2,210,934 | \$2,198,823 |

See accompanying notes to financial statements.

Grand Haven/Spring Lake Sewer Authority

Statements of Cash Flows

| <i>Year ended June 30.</i> | 2004 | 2003 |
|--|--------------------|--------------------|
| Statement of Net Assets | | |
| Classification of Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 235,695 | \$ 377,573 |
| Restricted assets (Note 4) | 1,975,239 | 1,821,250 |
| Total | \$2,210,934 | \$2,198,823 |

During the years ended June 30, 2004 and 2003, there were no non-cash investing, capital and financing activities.

See accompanying notes to financial statements.

Grand Haven/Spring Lake Sewer Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The Grand Haven/Spring Lake Sewer Authority (the Authority) is incorporated under the terms of Act 233, Public Acts of Michigan of 1955 for the purpose of constructing, owning and operating a sewage disposal system for its constituent municipalities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Township of Spring Lake and the Township of Grand Haven. The accrual basis of accounting is used in preparing the financial statements.

Under a contract executed in 1974 and subsequently amended, the City of Grand Haven (the City) is operating and maintaining the plant. Monthly operating expenses are billed by the City to the constituent municipalities for their proportionate shares of those expenses. Sewage disposal revenue also includes charges of \$97,623 and \$108,929 for costs that have been capitalized at June 30, 2004 and 2003, respectively.

Cash Equivalents

Cash equivalents consist of highly liquid investments, including certificates of deposit, with an original maturity of three months or less.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

Capital Assets

Capital assets are recorded at cost. Depreciation is computed on a straight-line method based on the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred.

Wastewater plant, wastewater mains and equipment are depreciated using the straight-line method over the following useful lives:

| | Years |
|---|-------|
| Wastewater treatment plant and pumping stations | 10-40 |
| Wastewater mains | 40 |
| Office, laboratory and transportation equipment | 5-40 |

Grand Haven/Spring Lake Sewer Authority

Notes to Financial Statements

2. Deposits

The Authority's deposits are included on the balance sheet in cash and cash equivalents and as restricted assets (Note 4). These amounts were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$2,210,684 and \$2,179,263 at June 30, 2004 and 2003, respectively. Of these amounts, \$200,000 was covered by federal depository insurance, and at June 30, 2004 and 2003, \$2,010,684 and \$1,979,263, respectively, was uninsured and uncollateralized.

3. Capital Assets

Capital assets consist of the following:

| | Balance June 30, 2003 | Additions | Disposals | Balance June 30, 2004 |
|--|-----------------------------|--------------------|-------------|-----------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 575,210 | \$ - | \$ - | \$ 575,210 |
| Capital assets being depreciated: | | | | |
| Wastewater treatment plant | 8,834,104 | 77,336 | - | 8,911,440 |
| Wastewater pumping station | 1,101,314 | - | - | 1,101,314 |
| Wastewater mains | 560,724 | - | - | 560,724 |
| Office, laboratory and transportation equipment | 78,228 | 20,287 | - | 98,515 |
| | 10,574,370 | 97,623 | - | 10,671,993 |
| Accumulated depreciation: | | | | |
| Wastewater treatment plant | 4,468,828 | 260,058 | - | 4,728,886 |
| Wastewater pumping station | 574,415 | 47,708 | - | 622,123 |
| Wastewater mains | 402,374 | 14,018 | - | 416,392 |
| Office, laboratory and transportation equipment | 30,680 | 7,796 | - | 38,476 |
| | 5,476,297 | 329,580 | - | 5,805,877 |
| Net capital assets being depreciated | 5,098,073 | (231,957) | - | 4,866,116 |
| Net Capital Assets | \$ 5,673,283 | \$(231,957) | \$ - | \$ 5,441,326 |

Grand Haven/Spring Lake Sewer Authority

Notes to Financial Statements

4. Restricted Assets Restricted assets consist of the following:

| <i>June 30,</i> | 2004 | 2003 |
|-----------------------------------|--------------------|--------------------|
| Cash and cash equivalents | \$1,975,239 | \$1,821,250 |
| Due from other governmental units | 68,867 | 55,180 |
| Total Restricted Assets | \$2,044,106 | \$1,876,430 |

These assets are restricted for the following purposes:

| <i>June 30,</i> | 2004 | 2003 |
|----------------------------------|--------------------|--------------------|
| Debt service | \$ 505,863 | \$ 374,022 |
| Capital improvements | 677,263 | 671,556 |
| Eagle Ottawa Operating Agreement | 860,980 | 830,852 |
| Total | \$2,044,106 | \$1,876,430 |

5. Long-Term Debt *Outstanding Debt*

Long-term debt consists of the following:

| <i>June 30,</i> | 2004 | 2003 |
|--|-------------------|-------------------|
| Contract payable to Ottawa County for 4.3% to 4.6% sewage treatment plant improvement bonds – 1998 Series A | \$ 470,000 | \$ 535,000 |
| Contract payable to Ottawa County for 4.3% sewage treatment plant improvement bonds – 1998 Series B | 260,000 | 515,000 |
| Less deferred charge on refunding | (41,430) | (62,144) |
| | 688,570 | 987,856 |
| Less current maturities | (330,000) | (320,000) |
| | \$ 358,570 | \$ 667,856 |

Grand Haven/Spring Lake Sewer Authority

Notes to Financial Statements

Changes in Long-Term Debt

The following is a summary of long-term debt transactions:

Years ended June 30, 2004 and 2003

| | |
|--------------------------------------|-------------------|
| Long-term debt, July 1, 2002 | \$ 1,272,142 |
| Debt retired | (305,000) |
| Amortization of deferred charge | 20,714 |
| Long-term debt, June 30, 2003 | 987,856 |
| Debt retired | (320,000) |
| Amortization of deferred charge | 20,714 |
| Long-Term Debt, June 30, 2004 | \$ 688,570 |

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004, including both principal and interest, are as follows:

| <i>Year ending June 30,</i> | Principal | Interest |
|-----------------------------|-------------------|------------------|
| 2005 | \$ 330,000 | \$ 25,150 |
| 2006 | 75,000 | 16,405 |
| 2007 | 75,000 | 13,068 |
| 2008 | 80,000 | 9,580 |
| 2009 | 80,000 | 5,960 |
| 2010 | 90,000 | 2,070 |
| Total | \$ 730,000 | \$ 72,233 |

Grand Haven/Spring Lake Sewer Authority

Notes to Financial Statements

Debt Charges

The Authority receives a debt charge from participating communities for the 1998 contract payable to Ottawa County based on volume of sewage treated for those communities. The Authority and the applicable participating communities have pledged their full faith and credit on the contracts payable to Ottawa County.

6. Pension Plan

Plan Description

The Authority participates with the City of Grand Haven in the Michigan Municipal Employees' Retirement System (MMERS), a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, Michigan 48917, or by contacting the City of Grand Haven Finance Offices.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's collective bargaining units. For the year ended June 30, 2004, required employee and employer contributions were suspended due to the overfunded status of the City's actuarial accrued liability.

Grand Haven/Spring Lake Sewer Authority

Notes to Financial Statements

Three-Year Trend Information

Funding information for the Authority's participation in the pension plan is as follows:

| <i>Year ended June 30,</i> | 2004 | 2003 | 2002 |
|-------------------------------|------|------|------|
| Annual pension cost (APC) | \$ - | \$ - | \$ - |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

7. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority participates in the Michigan Municipal League risk pool for workers' compensation and general liability insurance. The Authority has purchased commercial insurance for medical benefits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Additional Information





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Accountants and Consultants

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Fax: (616) 776-3680

Independent Auditors' Report

Board of Trustees
Grand Haven/Spring Lake Sewer Authority
Grand Haven, Michigan

We have audited the financial statements of the Grand Haven/Spring Lake Sewer Authority for the years ended June 30, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Grand Haven/Spring Lake Sewer Authority. This information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

BDO Seidman, LLP

October 6, 2004
Grand Rapids, Michigan

Grand Haven/Spring Lake Sewer Authority

Plant Operations and Charges

| <i>Year ended June 30,</i> | 2004 | 2003 |
|----------------------------|------------------|-------------|
| Sludge removal | \$201,681 | \$229,481 |
| Wastewater treatment | 186,720 | 196,665 |
| Laboratory | 190,526 | 167,303 |
| Secondary treatment | 99,503 | 78,865 |
| Building and grounds | 53,192 | 59,975 |
| Pumping station: | | |
| Grand Haven | 41,486 | 37,214 |
| Spring Lake | 56,925 | 44,862 |
| Wastewater primaries | 13,184 | 3,529 |
| Phosphate removal | 36,904 | 33,085 |
| Chlorination | 11,427 | 8,413 |
| Dechlorination | 5,878 | 10,585 |
| Grit and screening | 7,805 | 31,673 |
| Wastewater thickeners | 2,759 | 13,787 |
| Sludge storage | 8,798 | 11,146 |
| | \$916,788 | \$926,583 |

Grand Haven/Spring Lake Sewer Authority

Analysis of Amount Available for Debt Retirement

| <i>Year ended June 30,</i> | 2004 | 2003 |
|--|------------------|--------------------|
| Change in Net Assets | \$ 79,830 | \$ 253,977 |
| Add | | |
| Depreciation | 329,580 | (22,163) |
| Interest and paying agent fees expensed | 29,942 | 49,356 |
| Amortization of deferred charge on refunding | 20,714 | 20,714 |
| Deduct | | |
| Payments from Eagle Ottawa for separation agreement from constituent municipalities and other contractual obligations | (24,000) | (24,000) |
| Amount Available for Bond and Interest Redemption | 436,066 | 277,884 |
| Requirements | | |
| Principal | 330,000 | 320,000 |
| Interest and paying agent fees (cash basis) | 25,150 | 39,045 |
| Funds Used for Bond and Interest | 355,150 | 359,045 |
| Amount in Excess (Short of) Requirements | \$ 80,916 | \$ (81,161) |